

REMAPPING DEBATE

Asking "Why" and "Why Not"

A new deficit narrative?

Original Reporting | By Mike Alberti | Taxes



April 6, 2011 — Over the last few months, the debate over the 2011 budget has been focused on two questions: how much to cut, and from where? In February, Republicans in the House of Representatives approved **\$61 billion in cuts**; Senate Democrats countered in March with **\$6.5 billion in cuts**; by last week, \$33 billion had become the **magic number** on the Hill. Then yesterday, **House Speaker John Boehner insisted** that \$33 billion would not be enough.

House Democrats have been, for the most part, on the defensive, not challenging the fundamental premise that budget cutting is in fact necessary at this time. Recently, however, Representative Jan Schakowsky

(D-IL) introduced a bill that would shrink the deficit by more than the \$61 billion insisted on by House Republicans, but would not rely on program cuts to achieve that reduction.

The proposed bill, called the **Fairness in Taxation Act**, would create five additional income tax brackets, starting at 45 percent for married couples making over \$1 million dollars a year and increasing to 49 percent for people making \$1 billion and over (see sidebar). The current top tax rate is 35 percent for people making \$379,150 a year or more.

“I want to show that there’s a way to tackle the deficit without doing it on the backs of people who had nothing to do with this fiscal crisis,” Schakowsky said last week in an interview with Remapping Debate.

The Institute for Taxation and Economic Policy (ITEP) estimates that the proposed bill would raise \$78 billion if enacted in 2011. “It would probably raise more than that in future years, as the economy improves,” said Steve Wamhoff, a policy analyst at ITEP.

That’s \$17 billion more than House Republicans would achieve by cutting or eliminating funding for programs such as Pell Grants, Head Start, National Public Radio and high speed rail.

“People pay lip service to ‘shared sacrifice,’” Schakowsky said, “but the wealthiest have done absolutely nothing to sacrifice. I think it’s apparent to all that we have this problem of growing income inequality

and the disappearing middle class, which I think is a problem of greater magnitude at this moment than the problem of the debt and the deficit.”

Schakowsky was referring to the fact that, over the last thirty years, income gains have been concentrated at the very top, while wages for the majority of Americans have largely remained stagnant. Currently, one percent of the population owns 34 percent of the country’s wealth, while the bottom 90 percent owns only twenty-nine percent of the wealth, [according to the Economic Policy Institute](#).

“Income inequality is worse than it’s been since the Great Depression,” Schakowsky said. “The ones who sacrifice should be the ones who are most prepared to do so.”

Schakowsky said that she had no illusions that the proposed bill would actually pass, but she is trying to add co-sponsors and raise the bill’s visibility in an effort to make revenue part of the discussion about deficit reduction.

“Republicans have worked very hard for the last two years of the Obama Administration to create the perception that it has to be done through cuts alone,” Schakowsky said.

According to Wamhoff, Democrats are at least partly to blame for Republicans’ success in framing the deficit-reduction narrative around budget cuts.

“Republicans have been hi-jacked by an extreme anti-tax ideology,” he said, “but the Democrats are all over the place. There are a few [Democrats] on the Hill that are talking about raising revenue, but there are also some that are taking a much more conservative approach.”

Mike Lux, a strategist at the political consulting firm Progressive Strategies, L.L.C., agreed. “Democrats haven’t had much of a strategy on the deficit,” he said. “It’s just been reacting to things the Republicans are proposing and opposing the cuts. [The Fairness in Taxation Act] is the single strongest example of Democrats going on the offense when we’re talking about the deficit.”

TAX BRACKETS UNDER PROPOSED “FAIRNESS IN TAXATION ACT”

This table reflects the difference between current and proposed marginal income tax rates for married couples filing jointly. The Fairness in Taxation Act would add five additional marginal rates to be applied to income in excess of \$1 million.

| Income Range | Current | Proposed |
|-----------------------------|---------|----------|
| \$0-17,000 | 10% | 10% |
| \$17,000 - 69,000 | 15% | 15% |
| \$69,000 - 139,350 | 25% | 25% |
| \$139,350 - 212,300 | 28% | 28% |
| \$212,300 - 379,150 | 33% | 33% |
| \$379,150 - 1 million | 35% | 35% |
| | | |
| \$1 - 10 million | 35% | 45% |
| \$10 - 20 million | 35% | 46% |
| \$20 - 100 million | 35% | 47% |
| \$100 million - \$1 billion | 35% | 48% |
| \$1 billion and over | 35% | 49% |

Currently, the proposed bill has only 10 co-sponsors, most of whom, like Schakowsky, are members of the Progressive Caucus. Several other Progressive Caucus members said that, while they had not had a chance to read the proposed bill, they supported the concept of taxing millionaires and billionaires at higher rates.

High-ranking House Republicans [have said](#) that any revenue increase is “off the table,” though the [deficit-reduction proposal](#) set out last year by President Obama’s bi-partisan National Commission on Fiscal Responsibility and Reform relied on raising new revenue to account for one-third of a \$4 trillion, 10-year, deficit cutting package. Schakowsky, who was a member of the commission, voted against the proposal and issued [her own](#), which proposed to reduce the deficit by \$441 billion by 2015 using new revenue for two-thirds of the reductions and keeping entitlement programs intact.

“People pay lip service to ‘shared sacrifice,’ but the wealthiest have done absolutely nothing to sacrifice.” — Rep. Jan Schakowsky

Even some conservative advocates say that Schakowsky’s proposed bill could raise a substantial amount of revenue. Mark Robyn, a staff economist at the conservative Tax Foundation, said that he had no reason to doubt ITEP’s revenue estimate.

Alan Viard, a resident scholar at the conservative American Enterprise Group, said that while “it’s not going to be possible to close our fiscal gap with tax increases alone, that does not in and of itself mean that we shouldn’t do some tax increases on [the wealthiest Americans].”

Viard opposes the proposed bill because he believes that it would stifle investment. But Schakowsky takes a demand-side approach: “This is revenue that, through federal programs, will go into the pockets of ordinary Americans,” she said. “We can increase demand by allowing them to become consumers again, and that demand will prompt corporations to invest and hire more people.”

Curtis Dubay, a Senior Policy Analyst at the conservative Heritage Foundation, asserted that, “The deficit is 100 percent a spending problem,” but then, despite his opposition to doing so, acknowledged that the deficit could be partially addressed by raising revenue.

According to the liberal-leaning Center on Budget and Policy Priorities, [the Bush tax cuts are the single, largest contributor to the reemergence of large budget deficits](#) in the last decade.

Roberton Williams, a senior fellow at the Tax Policy Center, a non-partisan research group, argued that an effective revenue-side deficit reduction plan would combine some tax increases with broader tax reform that would eliminate loopholes in the current tax code.

The Fairness in Taxation Act would close one of the largest of those loopholes by taxing income from capital gains at the same rate as income from wages (capital gains income is currently taxed at 15 percent).

“Any serious conversation about the deficit needs to include both spending cuts and tax revenue,” Williams added, an approach directly contrary to the pledge to oppose all income tax increases — even those limited to the wealthiest Americans — that has been authored by the conservative group Americans for Tax Reform and signed by majority of House Republicans.

“I’m not opposed to making some cuts, but revenue has to be part of the equation, as well,” Schakowsky said. “People are mad, and rightly mad, but I think we have to re-focus their attention on....hedge fund managers that are paying [only] 15 percent of their billion-dollar income in taxes. We need to step back and create a budget that’s done in a really fair way.”

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